

Message Text

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ACTION AF-18

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20 *

USIA-15 SAM-01 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 INT-08

AGR-20 STR-08 HEW-08 TAR-02 GSA-02 DRC-01 /208 W

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TO SECSTATE WASHDC 9763

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NAIROBI FOR AGATT

MBABANE FOR OSARAC

EO 11652: N/A

TAGS: EFIN, ECON, ZA

SUBJECT: 1974 ZAMBIA BUDGET

1. SUMMARY: NEW MIN OF PLANNING AND FINANCE ALEXANDER CHIKWANDA PRESENTED BUDGET SOBER IN ASSUMPTIONS, YET EXPANSIONARY IN AIMS. BUDGET REDUCES DIRECT TAXES ON INDIVIDUALS, INCREASES INDIRECT TAXES, GIVES EDUCATIONAL AND OTHER ALLOWANCE CONCESSIONS TO EXPATRIATES AND INTRODUCES FISCAL INCENTIVES TO FARMERS. NO CHANGE IN TAXATION ON MINING PENDING OUTCOME NEGOTIATIONS IN PROGRESS ON GRZ RELATIONSHIP WITH AMAX AND ANGLO-AMERICAN. END SUMMARY.

2. IN SPEECH TO PARLIAMENT JANUARY 25, CHIKWANDA OFFERED BUD-
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GET MODEST IN REVENUE EXPECTATIONS BUT BOLD IN PROMOTION

OF NEW POLICIES.

EXPENDITURES OF K435.97 MILLION RECURRENT AND K158.3 MILLION CAPITAL (K1.00 EQUALS \$1.56) ESTIMATED FOR 1974 REPRESENT SHARP RISE OVER 1973 AS GRZ SEEKS TO INCREASE PACE OF DEVELOPMENT AND SIMULTANEOUSLY COVER COSTS OF ACHIEVING POLITICAL (E.G., TRADE REOUTING, DEFENSE) AND SOCIAL (E.G., EDUCATION, HEALTH) OBJECTIVES. AS RESULT OF HIGH COPPER PROFITS IN 1973, GOVERNMENT REVENUES WILL ALSO RISE IN 1974, POSSIBLY TO LEVEL HIGHER THAN CHIKWANDA'S CONSERVATIVE ESTIMATE OF K499.7 MILLION. AS IN 1973, THERE IS DISCREPANCY BETWEEN EXPECTED EXPENDITURES AND TOTAL REVENUE, LATTER ESTIMATE BEING SOME K90 MILLION SHORT, EVEN WITH DOMESTIC AND FOREIGN BORROWING INCLUDED.

3. LOW INCOME GROUPS WILL BENEFIT FROM A) REDUCTION OF INCOME TAX, B) MAINTENANCE OF CONSUMER AND PRODUCE SUBSIDIES (THUS ALLOWING PRICE OF STAPLE CORN MEAL TO REMAIN SAME), AND C) STIMULUS TO NEW JOBS. IN RETURN, WORKERS ASKED BY CHIKWANDA NOT TO MAKE INFLATIONARY WAGE DEMANDS.

4. FOREIGNERS ON CONTRACT IN ZAMBIA WILL BENEFIT FROM A) HIGHER EDUCATIONAL ALLOWANCES AND OTHER MEASURES ON BEHALF OF EXPATRIATE CHILDREN, B) LOWER INCOME TAXES, AND C) RIGHT TO DEDUCT MORTGAGE INTEREST FROM PERSONAL INCOME AS ZAMBIANS NOW DO.

5. FARMERS, IN ADDITION TO RECENTLY ANNOUNCED COMMODITY PRICE INCREASE (LUSAKA A-5, JANUARY 11, 1974), WILL HENCEFORTH A) BE ABLE TO WRITE OFF "FARM IMPROVEMENT" CAPITAL EXPENDITURES (INCLUDING STUD LIVESTOCK) ENTIRELY IN YEAR INCURRED, B) ENJOY TARIFF PROTECTION FOR VEGETABLE GROWING, AND C) BE EXEMPT FROM SPECIAL NEW CAPITAL GOODS CUSTOMS DUTY.

6. ADDITIONAL REVENUE WILL COME FROM INCREASED CUSTOMS DUTIES, INCLUDING MINIMUM 5 PERCENT TAX ON MOST CAPITAL GOODS, FND EXCISE DUTIES (E.G., MOTOR CARS ASSEMBLED IN ZAMBIA WILL BE TAXED FOR FIRST TIME). REQUESTS FOR SUPPLEMENTARY APPROPRIATION ARE TO BE KEPT TO MINIMUM THROUGH ESTABLISHMENT OF GENERAL AND TRANSPORT EMERGENCY CONTINGENCY FUNDS AND THROUGH MORE CAREFUL ACCOUNTING CONTROLS.

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7. CHIKWANDA REPEATEDLY STRESSED "LIKELIHOOD" OF ENERGY CRISIS RECESSION IN DEVELOPED COUNTRIES WITH DEPRESSING EFFECT ON COPPER PRICES. (N.B.: ANGLO-AMERICAN EXECUTIVE TOLD EXIM VISITORS LAST WEEK GLOBAL COPPER PRODUCTION SURPLUS OF 500,000 TONS WAS EXPECTED IN 1974, ALL OF IT LAST HALF OF YEAR. BUDGET WAS, THEREFORE, SAID TO ASSUME AVERAGE COPPER PRICE OF ONLY \$600 FOR THE YEAR.) HE, THEREFORE, MADE RATHER SOBER REVENUE

ESTIMATES, PARTICULARLY RE MINERAL TAX AND MINING COMPANY DIVIDENDS. ALSO STRESSED UNCERTAINTY STEMMING FROM LACK OF AGREEMENT WITH AMAX AND ANGLO-AMERICAN PRECLUDED CHANGE IN MINING TAX POLICIES AT THIS TIME.

8. COMMENT: THOUGH NEW TAXES COULD ADD TO COST OF LIVING, INITIAL REACTION INDICATES CHIKWANDA BUDGET WON MORE FRIENDS THAN ENEMIES. CHIKWANDA PRUDENTLY WARNED ENERGY CRISIS COULD HAVE SERIOUSLY DEPRESSING EFFECT ON COPPER PRICE. NOTABLE FEATURES OF BUDGET, IN ADDITION TO SIGNIFICANT INCOME TAX REDUCTION, ARE STRENGTHENING OF FOCUS ON AGRICULTURAL SECTOR AND FIRST (ALBEIT MODEST) USE OF FISCAL MEASURES AIMED AT ENCOURAGING MORE LABOR-INTENSIVE PRODUCTION. SINCE BUDGET PRESUMABLY VETTED AND APPROVED BY UNIP CENTRAL COMMITTEE, NATIONAL ASSEMBLY DELIBERATIONS NOT LIKELY HAVE MUCH, IF ANY, EFFECT ON THIS FIRST SIGNIFICANT POLICY DOCUMENT COMING OUT OF NEW ONE-PARTY POLITICAL STRUCTURE. IN-DEPTH ANALYSIS WILL BE MADE WHEN DETAILED ACCOUNTS AVAILABLE.
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